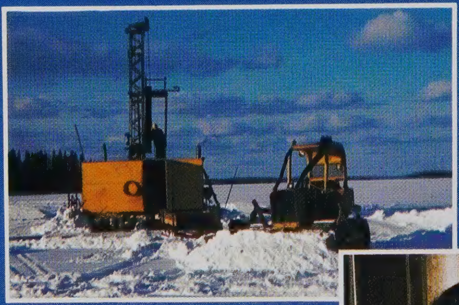
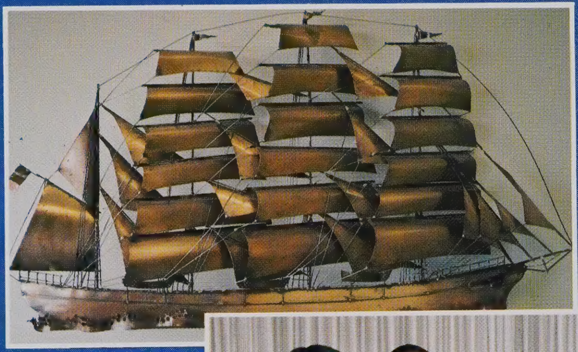
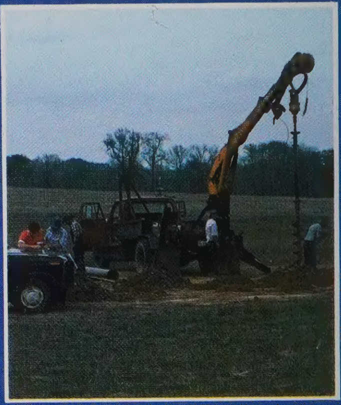
SEAGULL RESOURCES LIMITED

ANNUAL REPORT 1981







Photographs illustrative of Seagull's diverse activities include:

- signing of coal and share purchase arrangement with Taiyo Oil Company, Ltd. and Calgary's famous "white hatter" ceremonial presentation to Shigeyoshi Aoki, President of Taiyo;
- base metal drilling, Sturgeon Lake, Ontario;
- drilling in Australia;
- pipeling at Picton, Texas;
- exchange of corporate gifts between the two companies, a bronze sculpture of The Nippon Maru, presented to Taiyo and a photo of the Tsuzumi doll presented to Seagull.

NAME OF PROSPECT	No. of Wells	PERCENTAGE OF WORKING INTEREST	Net 1982 Production bbl	mmcf	CASH FLOW PRESENT VALUE DISCOUNTED AT 15% (M$) PROVEN	PROBABLE	TOTAL
U.S. DEVELOPMENTS							
Dow Chemical, LA	**1**	4.17	**100**	**10.6**	212.6	–	212.6
Brock Unit, TX	**2**	8.07	**800**	**2.0**	83.5	739.3	822.8
Guntle Unit, TX	**1**	37.5	**100**	**134.0**	2596.3	693.8	3290.1
Hughes Cty, OK	**5**	16.53		**25.0**	206.6	30.4	237.0
Pittsburg Cty, OK	**1**	29.29		**2.1**	8.6	–	8.6
Haskell Cty, OK	**12**	17.0		**234.3**	1675.2	1675.2	3350.4
Del-Valle S, CAL.	**1**	25.0	**1854**		179.1	255.5	434.6
Wilmington,CAL.	**4**	9.375	**1543**		108.7	–	108.7
McHattie, TX	**1**	37.5		**96.2**	1087.0	2946.0	4033.0
Robinowitz, TX	**2**	37.5		**132.1**	1600.4	694.0	2294.4
Dial, TX	**5**	20.0		**290.2**	1419.9	1133.0	2552.9
Picton, TX	**3**	26.96	**62914**	**102.0**	7847.8	–	7847.8
Albrecht, TX	**2**	7.81	**1821.8**		297.0	111.0	408.0
Atkinson, TX	**1**	7.81	**278**	**8.0**	130.7	175.0	305.7
Barron Ranch, TX	**1**	7.81		**4.0**	32.6	65.2	97.8
N. Gonzales, TX	**1**	12.50	**2000**		348.0	1044.0	1392.0
	43		**71,410.8**	**1,040.5**			
TOTAL U.S. PROSPECTS (Thousands of U.S. Dollars)					17,834.0	9,562.4	27,396.4
(Thousands of CDN. Dollars @ 1.17%)					20,866.0	11,188.0	32,054.0

Oil and Gas Wells Under Contract

CANADIAN DEVELOPMENTS	No. of Wells	PERCENTAGE OF WORKING INTEREST	bbl	mmcf	PROVEN	PROBABLE	TOTAL
Bellis, Alta.	**Unit**	0.02		**60.0**	4.5	–	4.5
Bigoray, Alta.	**1**	17.1		**8.9**	82.9	–	82.9
Brazeau, Alta.	**Unit**	0.28		**60.0**	573.1	–	573.1
Crossfield, Alta.	**4**	20.31	**5887**	**13.6**	403.0	90.4	493.4
Cremona, Alta.	**2**	6.25	**805**	**1.6**	211.3	731.5	942.8
Fenn Big Valley, Alta.	**Unit**	0.35		**1.6**	31.6	–	31.6
Hercules, Alta.	**3**	18.90		**13.0**	237.8	116.2	354.0
Lone Pine, Alta.	**1**	8.44		**19.5**	233.0	–	233.0
Medicine River, Alta.	**1**	7.5	**616**	**2.9**	21.1	–	21.1
Nestow, Alta.	**1**	16.0		**1.2**	8.3	–	8.3
Pembina, Alta.	**1**	ORR	**642**	**0.8**	235.3	–	235.3
Rainbow, Alta.	**Unit**	2.34		**61.5**	1004.1	–	1004.1
Retlaw, Alta.	**2**	15.0		**8.0**	54.0	110.6	164.6
Buick Creek, Alta.	**2**	19.64		**1.1**	115.0	50.6	165.6
Otter Creek, B.C.	**2**	20.21		**30.5**	1015.8	388.2	1404.0
Wilder, B.C.	**3**	16.94		**158.2**	2660.8	–	2660.8
SUB TOTAL			**7,950**	**442.4**	6,891.6	1,487.5	8,379.1

Suspended or Shut-In Gas Wells

	No. of Wells	PERCENTAGE OF WORKING INTEREST	bbl	mmcf	PROVEN	PROBABLE	TOTAL
Blueridge, Alta.	**1**	50.0			536.5	–	536.5
Burns Lake, Alta.	**1**	7.50			68.7	–	68.7
Mannville, Alta.	**1**	30.0			95.9	–	95.9
Neerlandia, Alta.	**1**	50.0			227.2	–	227.2
Sylvan Lake, Alta.	**1**	31.25			–	487.3	487.3
Kestril, B.C.	**1**	8.33			59.8	–	59.8
TOTAL CANADIAN PROSPECTS (Thousands of CDN. Dollars)					7,879.7	1,974.8	9,854.5
TOTAL PROSPECTS (Thousands of CDN. Dollars)					28,745.7	13,162.8	41,908.5

President's Letter

Seagull recognizes that a world recession, Canada's National Energy Program and the negative implications for financings contained in the Canadian federal budget have caused the virtual erosion of Canadian equity capital – whether for investment or market support. Accordingly, we have entered a period of consolidation until actual cash flow increases from the new wells are realized in the second half of 1982. We expect during this latter period to commence reduction of our bank debt and to be in a position to add to reserves and assets not only through drilling activities but through acquisition for cash or shares or both.

Reviewing petroleum operations for this fiscal period, our oil and gas drilling in the U.S. resulted in a success ratio slightly in excess of 80% on wells we operated ourselves and approximately 50% for wells operated by others on our behalf. The industry average success rate being much lower, shareholders may well appreciate why we are so proud of our exploration team. The progress of Seagull in expanding its North American oil and gas reserves is certainly worth remarking on here considering that independent values in 1979 at a 15% discount rate were $5,616,000 for proven plus probable reserves and now, two years later, amount to $41,908,500.

1981 was a pivotal year for Seagull. A total of 43 wells in the United States are now under contract. In addition 23 wells are on production in Canada, not including our participation in four operating units. Fully detailed on the previous page, all of these wells are either on stream or awaiting only the completion of surface facilities currently under construction.

The significant increase in net operating income resulting from the U.S. wells finally being placed on production, not only puts Seagull in the perhaps enviable position of surviving in this sea of uncertainty but also of being able to respond when advantageous opportunities present themselves.

The value of the company's coal reserves was substantially enhanced by an agreement signed February 16th, 1982, in which the Taiyo Oil Co., Ltd., of Tokyo subscribed for 200,000 common shares of treasury stock for $1 million cash (Cdn). At the same time Taiyo, which has been a major supplier of energy to Japanese power companies since 1907, agreed to act as our exclusive marketing arm in the Pacific Rim countries, particularly Japan, Korea and Taiwan.

Japanese imports of thermal coal have increased rapidly over the last three years. Projections are for relatively slow market growth for the next three to four years with rapid growth of thermal coal imports after 1985. Projections indicate an increase from 13.5 million metric tons in 1981 to 38 million tons in 1990 and nearly 70 million tons by 1993. It is anticipated 20 - 25% of this demand will be met with Canadian thermal coal and based on discussions to-date with the various power companies, Seagull and Taiyo are optimistic that the Buffalo Hills coal will form part of meeting this market demand.

Decisions made by Pacific Rim countries, particularly Japan, to convert from crude to coal for electricity generation are influenced as much by a desire for long term certainty of energy supply as by price considerations.

Thus, while the current world oil glut and attendant price reductions probably create some timing variations, it is our view that the oil surplus is a temporary situation and that conversion plans to coal will proceed as projected albeit with some short term delays.

A further drilling program was initiated in January and, to date, 10 core holes have been completed including one large diameter 6″ core. In conjunction with the drilling, geotechnical testing, hydrogeology testing and quality analyses were undertaken. A predevelopment proposal for submission to the Government has been prepared. The next phase, called a feasibility study, is scheduled to begin in the second half of this year and upon its completion, a final production decision will be made by Seagull, Taiyo and the other partners we expect to have by that time.

We recognize that market analysts, particularly those closely associated with the oil and gas industry, view our coal property as having minimal value and we can only reiterate our belief that Buffalo Hills represents the company's single most important asset in terms of potential growth and value.

A major commitment of Seagull management has been, and continues to be, reduction of bank debt. To this end, a private placement of 500,000 treasury shares at an average of $6.70 per share was arranged in April in two parts to be executed in July and October of 1981.

The arrangement was cancelled by Seagull early in August when the first phase of financing due July 15th was not forthcoming. As the expected $3.35 million in equity financing thus did not materialize and because of a lag of some months in the actual realization of income from completed successful wells, Seagull was unable to achieve its objective of reducing bank debt in 1981.

Indeed, the unavailability of the equity financing and the costs associated with our major increase in producing and producible reserves combined to necessitate an increase in Seagull's bank line of credit.

A management plan to reduce the company's debt load in the im-

mediate term through conversion of preferred shares to common shares was approved at a meeting of the Board of Directors in Vancouver March 25, 26 and 27. The information circular accompanying this Annual Report describes the arrangement in detail.

We believe that it is appropriate to emphasize that the company's overhead (general and administrative) showed virtually no increase during the inflationary period of 1981. Accordingly, Seagull's operating loss for the year is entirely attributable to higher debt, interest, depletion and depreciation charges related to the asset increases achieved during the year.

It is also proper to note that Seagull uses the very conservative successful efforts accounting approach rather than the full cost accounting method used by the vast majority of our competitors. What this means is that, in our case, properties without potential are written off immediately and interest and overhead costs can only be capitalized for the amount attributable to development properties. Our competitors who are on the successful efforts method are allowed to capitalize a very high proportion of these entire costs.

In other words, if we were on the full cost accounting method, increased capitalization, particularly interest charges, would probably have reduced our operating loss to approximately $1.5 million.

In Australia, the company's 10 percent working interest reducing to 3 percent and 4 percent in two ATP's totalling 23 million contiguous acres is fully carried through nine exploratory wells operated by Esso Australia Ltd. Although two exploratory wells were drilled and abandoned on the tract in 1981, the operator continues to indicate enthusiastic and vigorous pursuit of the very substantial oil and gas targets on our two ATP's (Authorities to Prospect).

Seagull conducted 11,345 feet of diamond drilling in 14 holes over the 1980/1981 winter period on its 100% owned base metals property at Sturgeon Lake, Ontario. Nine holes cut significant mineralizations although none in economic concentrations.

A major Canadian corporation has initiated a substantial drilling program for similar targets on its base metal leases adjoining our Sturgeon Lake position. Results are expected by this summer.

My final comment is on the stock market and the impact it has had on our shareholders. The forces that have driven the stock market to lows we had not thought possible six months ago are for the most part external but we note with some dismay that Seagull stock is trading at this writing in the $2.50 range as opposed to its high of $8.50 last summer. We appreciate the continuing faith that has been demonstrated by management and directors who have significantly increased their holdings in the face of declining market values.

Real values, however, strongly underpin such investments as, for example, discounted at 15%, Seagull's proven and probable North American oil and gas reserves are independently valued at $41,908,500 or, approximately $10.00 per share. Taking into account the discounted net asset value of Seagull's undeveloped Canadian, U.S. and Australian land positions plus the coal, Seagull stock is publicly trading at prices that, quite frankly, bear no relation to reality.

More analysts are beginning to forecast a market turnaround in the fairly near future. Such prospects notwithstanding, the situation is depressing to all shareholders but probably even more distressing to our employees who have worked so hard, and I may add, so successfully in accomplishing solid corporate objectives only to find no reflection of these efforts in the stock market values.

Seagull is not of course in the stock market business. We are in the resource business. These capital markets are, however, an integral part of development of any company which has chosen to "go public" and the absence of investment capital hampers its natural expansion and development. We are hopeful that the situation is temporary and that we can broaden our base of shareholder support through new equity issues during the course of this year. Should the situation in Canada continue to militate against investor participation, we will be seriously considering the U.S.A. as our principal base of operations and future source of equity.

On behalf of the Board of Directors and our shareholders may I express my sincere appreciation to a small but dedicated group of employees for their loyalty, hard work and contributions in these difficult and unsettled times.

Hugh C. Findahl
President
and Chief Executive Officer

North American Petroleum Operations

By October, 1980, Seagull, with the acquisition of Seatu Exploration Ltd. had essentially completed – to its current status – a strong land assembly and production development program in Canada.

Since that time, the Company has generally restricted its exploration activity in Canada to relatively few land acquisitions and some limited farmed out drilling, coincident with a measured acceleration of oil and gas operations in the United States.

In the ensuing two years, Seagull's program for the development of producing and producible properties in the United States emphasized exploitation of the full acreages proximate to drilling successes and application of exploration funds to other areas on the general basis of similarities of geological setting.

In a second and more recent stage of development, the Company has sharply increased its U.S. drilling activity and has sought, and obtained larger participation percentages in plays adjudged internally as having better than average potential. This development of corporate exploration strategy included a movement by Seagull to assume operatorship in a number of the more promising plays.

The simplified area maps on pages eight and nine of this report show contracted well locations which have resulted from this strategy and also illustrate the grouping effect engendered by this approach to exploitation of the generated reserves.

In Haskell County, Oklahoma, for example, four natural gas wells are presently under take or pay contract and eight additional wells are to be tied into the gathering system now in the concluding stage of construction by the gas purchaser. The 12 wells in the current program have demonstrated aggregate producibility in excess of ten million cubic feet per day. Seagull's average working interest is approximately 17 percent.

Seagull drilling in Texas discovered the Guntle well in Fort Bend County which has been generating income for some eighteen months. Drilling to the north in Hopkins County, Texas, discovered the Picton sour gas and condensate wells. As a reaction to lengthy administrative delays in concluding a gas processing and other contracts together with necessary pipeline construction, Seagull this year formed a subsidiary, Picton Pipeline, Inc., executed all required sales contracts and has begun construction of the delivery facilities. The three wells involved have demonstrated aggregate producibility of 4.5 million cubic feet per day of natural gas plus approximately 720 barrels per day of condensate. Seagull, with a 27 percent working interest, is operator of the wells and of the pipeline.

On lands immediately north of the Guntle well and also within Fort Bend County, the 1980/81 drilling program discovered the two Robinowitz wells which, together with Benton Estate #1, are scheduled to be tapped into the main existing line immediately – all necessary surface facilities and gathering systems now being in place. These three natural gas wells have demonstrated aggregate deliverability of approximately 3.0 million cubic feet per day. Seagull is operator and has a working interest of 37 percent in the program.

Seagull's successful exploration and development activity in Fort Bend County was a major factor in the subsequent decision to take a position as operator in a play with a number of similar geological characteristics approximately 125 miles to the west in Goliad County, Texas.

Seagull's working interest is 25 percent in G.B.R.A. numbers 1, 3 and 4 and 16 percent in Noel Dietzel numbers 1 and 2. The five

LAND HOLDINGS

	Developed Acreage		Undeveloped Acreage	
	Gross	Net	Gross	Net
United States				
Arkansas			400	25
California	66	11	5,000	100
Colorado			57,957	1,845
Kansas			16,0661	25,056
Louisiana	360	22	4,670	291
Montana			1,640	197
Oklahoma	3,225	530	1,960	490
Texas	10,551	2,109	40,577	9,097
Utah			129,000	15,485
Wyoming			35,580	4,270
TOTAL U.S.	14,202	2,672	437,445	56,856
Canada				
Alberta	75,500	7,208	137,899	44,191
British Columbia	11,716	2,347	4,625	868
Saskatchewan	640	140	320	320
TOTAL CANADA	87,856	9,695	142,844	45,379
GRAND TOTALS	102,058	12,367	580,289	102,235

In addition, the Company has a varying royalty interest in 378,909 acres of Artic Lands plus Australian interests in 23 million acres as well as less significant German North Sea properties – all of which are discussed elsewhere in this report.

producers which involve seven pay zones, have demonstrated aggregate producibility of approximately 7 million cubic feet per day. Surface facilities have been designed and ordered and gathering systems construction is expected to begin immediately.

Other less significant participation in various exploratory wells in Texas, California, Utah and Louisianna involved 18 wells in the current program of which six were completed as producers.

In California, Seagull has a 25 percent interest in an oil well, Ramona Del Valle, drilled in Ventura County in 1981 and an approximately 9 percent interest in four oil wells completed from a single pad in Los Angeles County. Initial production rates of approximately 160 barrels per day at the Ramona Del Valle well declined subsequently due to wax problems while the four Wilmington wells have produced at a rate of 6000 barrels per month.

NET RESERVES

		OIL		NATURAL GAS	
		Imperial mbbl	Metric M^3	Imperial millions cf	Metric $10^3 M^3$
Proven:	Alberta	135	21 465	3,847	108 400
	British Columbia			7,683	216 500
	California	42	6 678		
	Louisiana			75	2 100
	Oklahoma			941	26 500
	Texas	345	54 855	4,394	123 800
	Total Proven	522	82 998	16,940	477 300
Probable:	Alberta	109	17 331	1,032	29 100
	British Columbia			738	20 800
	California	35	5 565		
	Louisiana				
	Oklahoma			834	23 500
	Texas	75	11 925	3,801	107 100
	Total Probable	219	34 821	6,405	180 500
Total Proven and Probable		741	117 819	23,345	657 800

The above reserve calculations are restricted, as to 90 percent of the reserves, to only these properties now in production or under contract and having been determined by independent engineering reports as of February, 1982.

1982 Programs

In the Goliad County play, a number of the wells encountered multiple gas zones and have generated, as a result, six more locations in the 2,500 gross acres position involved. Development and tie-in activity on these locations is scheduled for the remainder of 1982.

In Haskell County, Oklahoma, and following a south westerly trend into Hughes County, previous drilling has generated approximately twenty more high potential locations. The Company has markedly increased its land positions along this trend through a farm-in to the position of a major oil company and has drilled the first two wells of the additional twenty development locations. Both were completed as producers.

Since the pipeline presently being constructed to the first twelve producers in Haskell County is also scheduled for extensions to the additional locations, geological expectations are for a total of approximately 20 million cubic feet of production from the current wells plus the trend area by the end of 1982.

Seagull's oil and gas operational program for 1982 will primarily be directed towards the development of the additional locations in Goliad County, Texas and in Haskell and towards Hughes County in Oklahoma. Some additional drilling is also planned for Fort Bend County, proximate to the gathering system constructed for production of the Robinowitz wells.

Seagull entered into an agreement in 1981 with Pronto Petroleum, Inc. as an equal partner with Conventures Limited, Macfie Resources Inc. and Nimus Resources Ltd. In the arrangement, Seagull has the right of first refusal as to a 25 percent interest in hydrocarbon ventures generated by Pronto, a Denver Corporation. Pronto has indicated that a number of interesting plays are currently available for review and the Company will be evaluating these prospects for possible participation in 1982.

In Canada, Seagull expects that its major exploration thrust, for at least the remainder of this year, will involve farm out activity on its attractive land position, primarily in Alberta. The Company's land position in Canada, built up over a period of about 10 years, offers many opportunities for high potential drilling. Seagull is currently negotiating with a number of potential farmees for the drilling of the major prospects involved.

Buffalo Hills Coal Project

In the Buffalo Hills area of southern Alberta, where Seagull owns 100 per cent of approximately 700 million tons of high quality thermal coal in-place, the Company is currently involved in a multiphase exploration and development program aimed at delineating a block of reserves that can be recovered economically by underground mining procedures. The present work is concentrated in the southern half of the company's leases where it is apparent that significant reserves of coal are available from an area known to contain a single major seam.

Phase Two of the program has been completed and all test holes drilled to date have encountered probable economic sections of coal ranging up to seven metres in seam thicknesses. During this most recent phase of the program, special attention was paid to the gathering of data to be employed in the engineering of the proposed mine and preparation plant.

Seagull management has held a number of discussions with members of the Alberta Department of Energy and Natural Resources on the Company's intention to place the property into production and a preliminary disclosure of our development plans has already been submitted to the provincial government. A preliminary disclosure is a first step in gaining approval in principle for the proposed project.

In addition, a number of discussions have been held with Canadian Pacific Railways and with the Port of Roberts Bank concerning accommodation regarding the transportation and trans-loading of our coal into ocean carriers. As a result of these talks, we currently foresee no problem in using these services.

Australian Exploration

In 1977, at a time when acquisition costs were low, Seagull and a group of North American partners acquired a tract of land in Australia larger than the entire state of Texas. The tract, located in Queensland and comprising approximately 23 million acres in two contiguous ATP's (Authority to Prospect) numbers 265 and 268, was farmed out to Exxon which undertook an earning commitment involving a 500 kilometre seismic program and six wells in Phase I of the farm-in and 250 additional kilometres of seismic and three more wells in Phase II.

To date, through its subsidiary Esso Australia Ltd., Exxon has completed more than 3,000 kilometres of seismic lines with no improvement in its potential ownership position. Two 1981 sites were drilled to seismically identified structures which have been described as "of north sea size". The operator indicated targets of a total of 500 million barrels of oil plus 500 billion cubic feet of natural gas in the two tests. Both of these wells were dry and abandoned, however, similar potential is indicated for future planned drilling.

Seagull's original 10% working interest in the properties, which is fully carried through the entire earning program, would reduce to 3% on ATP 268 and 4% on ATP 265 with the establishment of ongoing production.

Base Metals Mining

Seagull owns 100% of 320 leases covering approximately 13,000 acres on its Sturgeon Lake, Ontario base metal property. Over the 1980/81 winter 14 test holes were drilled, 12 of which contained copper and zinc mineralization with some disseminate silver.

Of these, test holes numbers 5 and 6, located approximately 300 feet apart, assayed at 10.67% and 1.21% zinc respectively in sections in excess of five feet. In addition, silver in hole number 6 assayed at 0.8 ounces per ton.

Seagull's Sturgeon Lake property is bounded by mineable ore bodies on both sides and operated by major Canadian mining companies, one of which initiated an extensive drilling program this winter. Seagull will take such results of that drilling as may be publicly available into consideration in respect of our next program of exploration.

The State Newspaper Since 1907

OKLAHOMA CITY, OK SUNDAY, OCTOBER 18, 1981

Calgary Oilman Governmer partnership

By Becky Tallent

Calling the Canadian government's attitude towards its oil industry "corporate piracy," the executive officer of an independent Canadian oil company explained many of the reasor why 250 drilling have moved the borde search

exploration and development of the thermal coal property whose mineable reserves have been confirmed at 700 million tonnes.

In an interview, Findahl said the treasury share price was verbally agreed to last month when Seagull stock was trading between $2.90 and $3 on the Alberta Stock Exchange. Is is now hovering around $4 mark, with the company a negative cash flow

JAPANESE, Page C13

Joins forces Pronto

another good example of the diversion of petroleum expertise and budgets from Canada by Canadian companies seeking a reasonable return on their shareholders' investments," said Conventures president Carl Nickle.

"While I would not characterize this as a particularly large point, Pronto does potential,"

The four are equal partners in the company, which is under the management of Canadian geologist Kenneth Wallace.

Seagull Resources president Findahl said the venture significantly broaden our and gas plays in the tains from Oklahoma Gulf coast, successful drilli

Japanes

From Page C7

Asked why the Japanese company had agreed to pay almost 67 per cent more than the going price, Findahl said the company's value is not related to the stock exchange price.

In the next two months, Seagull's U.S. oil and gas production will rise from $1.5 million per year to $6 million, he said.

According to Shigeyoshi Aoki,

may fly

By TOM KENNEDY
Staff Writer

Seagull Resources Ltd., a Calgary junior energy company, is said to be "close" to concluding a deal in respect of its Buffalo Hills coal property, 45 miles southeast of Calgary.

Company president Hugh C. Findhal told the Sun at least two large Canadian and four Japanese companies and a Greek shipping line have expressed interest in joint ventures.

The approximately 700 million tons of estimated reserves of thermal coal can be either mined or liquefied or be produced by both means of recovery, Findhal said.

The approximately $300 million investment envisaged "is of the magnitude that we don't plan to finance alone," Findhal

a cost estimated at $110 million 1981 dollars.

The coal property, located kilometres southeast of Calgary, expected to produce 250,000 tonnes annually by 1984 and two million tonnes by 1988. At peak production it will employ about 240 workers.

County has three gas wells, another on way

Three gas wells have been completed in Fort Bend County and a fourth is now being spudded, it was announced by Seagull Resources Ltd., of Calgary, Alberta, Canada and Houston.

The wells are situated on a block of 1,400 acres near the Seabourne Creek and have been drilled to the Frio formation at a depth of 6,000 ft.

Seagull is the operator for the Seabourne prospect.

The Robinowitz No. and No. 2 are stepouts from an earlier producer and the Robinowitz No. 3 is now spudding.

The Navasota Examiner

Thursday VOL. 86 NUMBER 13 TWENTY-EIGHT PAGES USPS 375-180

and Grimes County Review

GULF COAST TI

Canadian Firm Has Nine Wells

Nine gas wells in Haskell County have been completed and four are already being paid for on a "take or pay" basis, it was announced by Seagull Resources of Alberta.

Canadian Oilmen Have Completed Nine Gas Wells In Haskell County

Nine gas wells in Haskell County have been completed and four are already being paid for on a "take or pay" basis, Seagull Resources of Calgary, Alberta, announced.

The wells lie directly south of the Eufaula Reservoir in an area where Seagull holds a 16% working interest

and Army Corps of Engineers #1. The remaining five wells will be paid for as they are tied into the Arkla Pipeline

Davidson Part

An Update

Seagull has level of in

At Seaborn

As Others See Us

geological information might over new prospects for Seagull

Resources Limited is conducting a pre-feasibility study on its property, Calgary

Now conducting pre-feasibility study

property. The high quality, thermal coal will be extracted via development of an underground mine.

Initial capital required to develop the property could be between $200 million and $300 million, says Mr. Cox.

This amount of capital is beyond the financial resources of Seagull, which is currently

and Seagull Resources Ltd.

Last week Seagull shares experienced active trading on the Alberta Stock Exchange. Its shares are also traded over the counter in the U.S.

Mr. Cox says the recent announcement of the extensive coal deposits

Advance-Guard

THURSDAY, NOVEMBER 12, 1981 PUBLISHED BY THE GOLIAD PRINTING COMP

Canadians Drill For Gas

Two gas wells in Goliad County have been completed and spudding of two more wells will commence in early November. It was

THE WALL STREET TRANSCRIPT

February 22, 1982 – Page 64,829

SEAGULL RESOURCES LIMITED (Calgary, Alberta) C. Findahl, President, Seagull Resources Limited, Alberta and Shigeyoshi Aoki, President, Taiyo Ltd., Tokyo, Japan, announced the subscription of 200,000 shares at a price of $5.00 per share to provide funds for the next exploration and development of Seagull's Buffalo Hills Coal property.

The Calgary Sun, Wednesday, February 17, 1982

Coal has big future in Japan

According to the Japanese, Taiyo's nearly century-old business ties with steel companies and other large customers will stand it in good stead as Japanese industry switches to coal.

Japan is buying steam coal abroad in large quantities. The country forecasts its 1981 imports will grow to 38 million tonnes by 1993.

THE CALGARY HERALD

Business & Resources

Drilling focus shifts to Q

By David Hatter

Three junior Alberta oil companies are going to participate in one of Australia's largest exploration programs.

Galilee Basin

Seagull and its Canadian partners acquired two large tracts of acreage in the Galilee Basin in 1977.

The Herald-Coaster

YOUR DAILY FORT BEND COUNTY NEWSPAPER

EIGHTY NINTH YEAR – NO. 272

1902 S. FOURTH STREET

Canadian Company Doing The Work

Fort Bend Gas Wells

Calgary, Alberta and Houston. The wells are situated on a block of 1,400 acres near the Seabourne Creek and have

Canadian pro

RY, ALBERTA – has been completed and a second well will be completed soon in County, according to Seagull Resources, Ltd., Calgary, Alberta and

be completed Brock No. drilled to 6,000 feet in formation

PRESS-TELEGRAM

CALIFORNIA/SATURDAY, DECEMBER 19, 1981 25c

NEWS-STAR

STIGLER, OKLAHOMA, December

Haskell County News–Volume 80–Number 45

GREENSHIELDS

Research Report

Brockville, Halifax, Newmarket, Quebec, St. John's, Vancouver, Burlington, Hamilton, Niagara Falls, Red Deer, St. Thomas, Victoria, Montreal, Calgary, Kelowna, Oakville, Regina, Sorel, Welland, New York, Toronto, Charlottetown, Kingston, Oshawa, Repentigny, Stratford, Winnipeg, London, Cornwall, Kitchener, Ottawa, Saint John, Sudbury, Woodstock, Zurich, Edmonton, London, Pembroke, Sarnia, Trois Rivières

December 18, 1980
80-51-462

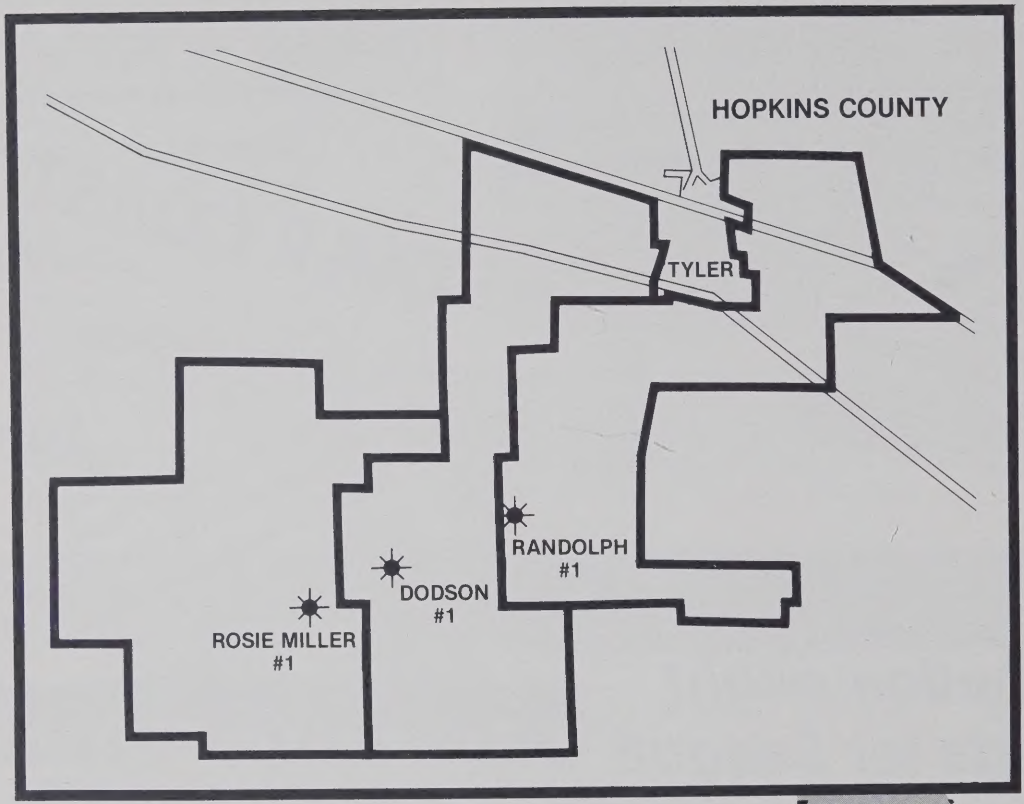
SEAGULL RESOURCES LTD.

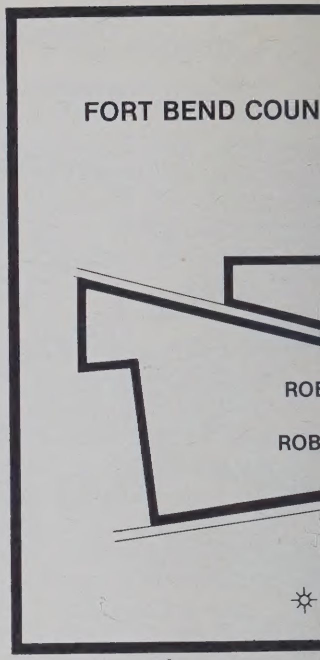
RECOMMENDATION - Buy for speculative accounts.

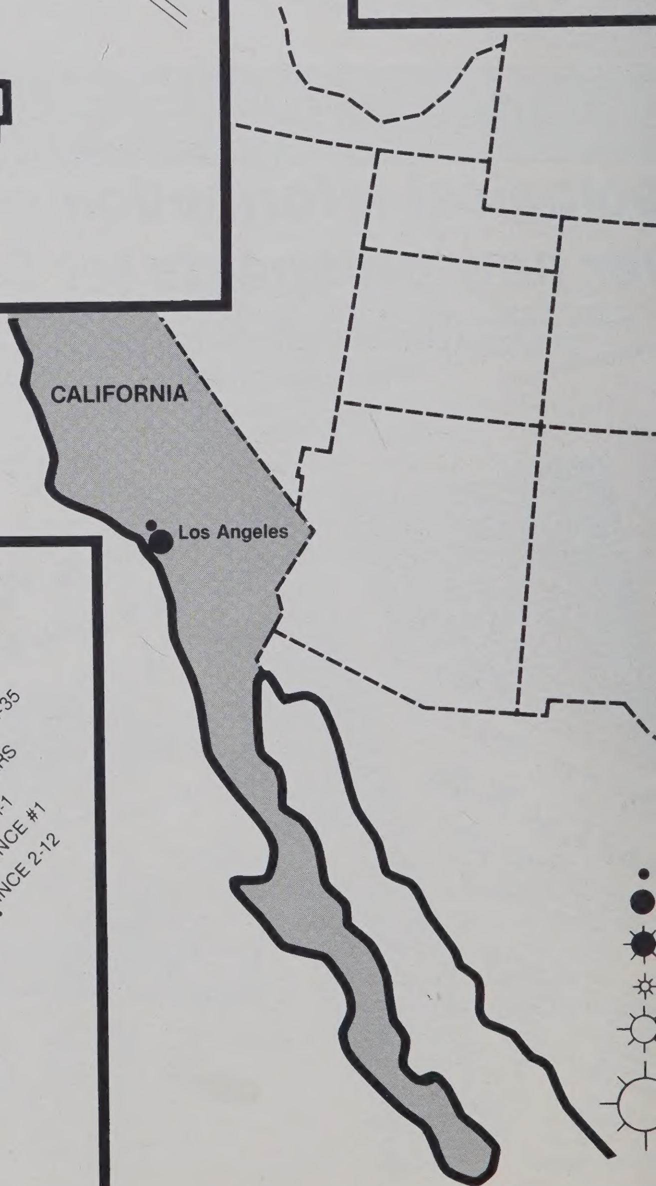
CONCLUSION - Seagull is a junior Canadian company (market capitalization $30 million) active in the U.S. since 1978. It currently trades at about asset value (conservatively determined) and production income should quadruple in 1981. During next year Seagull affords a reasonable play on several attractive fronts - U.S. oil and gas exploration, mainland Australia, a large Alberta coal lease, and an Ontario mineral prospect. Despite a rather high cash flow multiple, asset

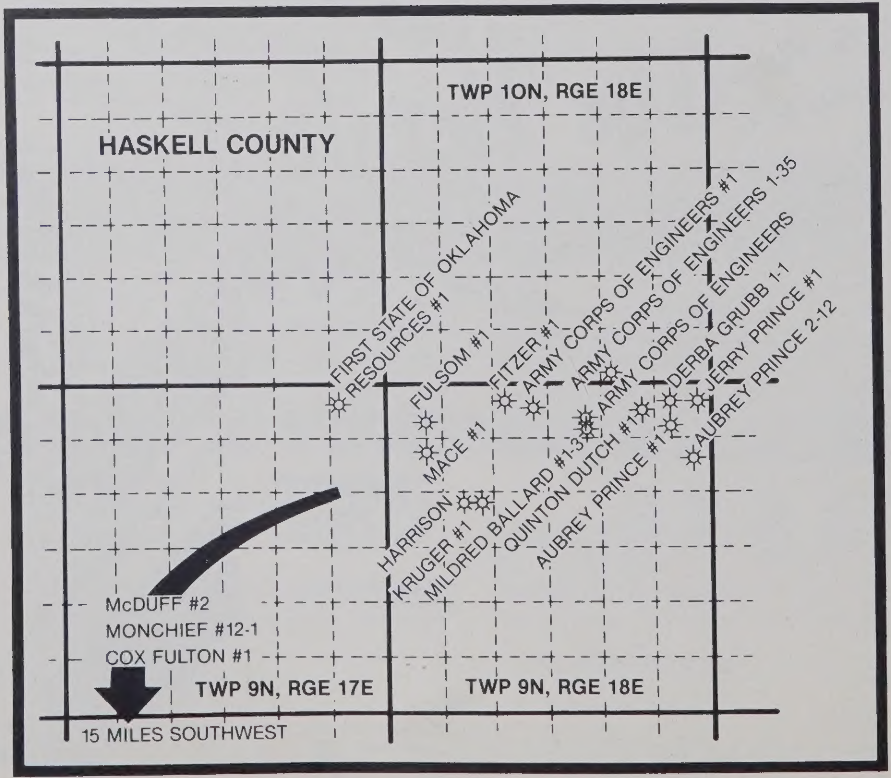
SEAGULL RESOUR

The most significant level of here in the $3.60-$4.20 range. In terms the 'breakout' which took place in July at volume to support the breakout and ultimately rectangular pattern between $8 and $5 has, down at this point and literally interpret to the $3.20 - $3.50 level.

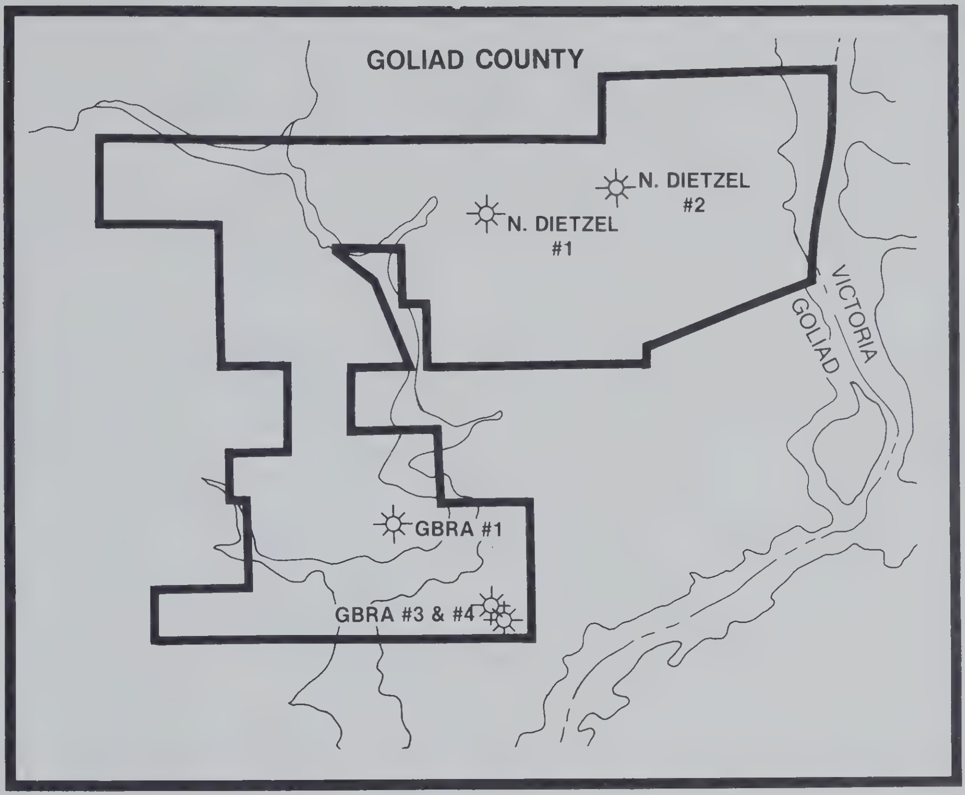

HOPKINS COUNTY
TYLER
RANDOLPH #1
DODSON #1
ROSIE MILLER #1

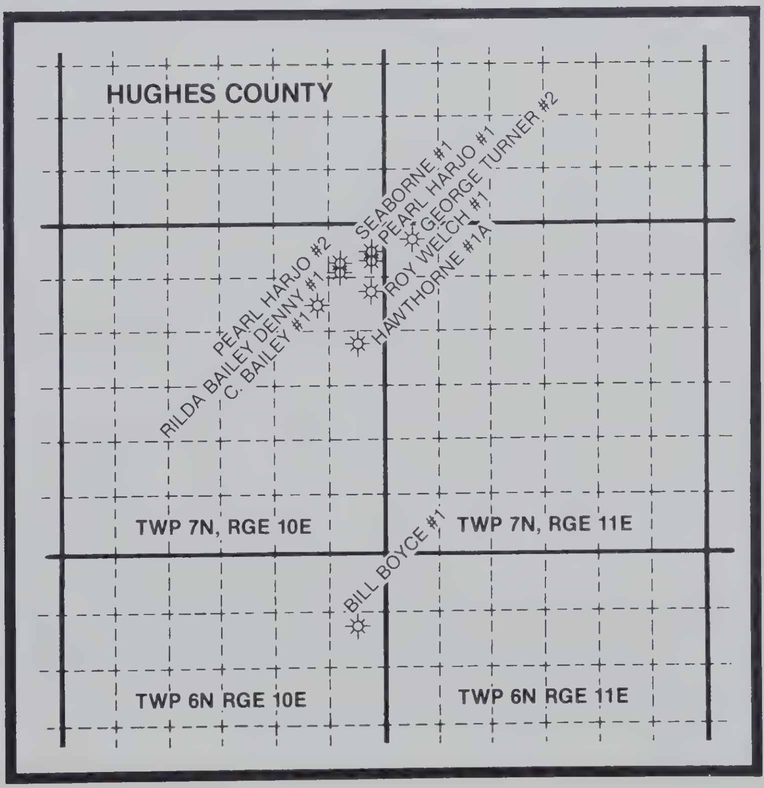

FORT BEND COUN


CALIFORNIA
Los Angeles


TWP 1ON, RGE 18E
HASKELL COUNTY
FIRST STATE OF OKLAHOMA RESOURCES #1
FULSOM #1
FITZER #1
ARMY CORPS OF ENGINEERS #1
ARMY CORPS OF ENGINEERS 1-35
ARMY CORPS OF ENGINEERS
DERBA GRUBB 1-1
JERRY PRINCE #1
AUBREY PRINCE 2-12
MACE #1
HARRISON
KRUGER #1
MILDRED BALLARD #1-3
QUINTON DUTCH #1
AUBREY PRINCE #1
McDUFF #2
MONCHIEF #12-1
COX FULTON #1
TWP 9N, RGE 17E
TWP 9N, RGE 18E
15 MILES SOUTHWEST

MAJOR U.S. OI





D GAS PROPERTIES

OWN TO SCALE

Consolidated Balance Sheet

Assets

	October 31, 1981	October 30, 1980
CURRENT ASSETS		
Cash	$ –	$ 317,195
Accounts receivable		
Trade	3,967,152	1,744,496
Sale of resource properties (note 3)	–	150,000
Officers and directors	98,817	16,721
Prepaid expenses	9,562	9,149
	4,075,531	2,237,561
PROMISSORY NOTE RECEIVABLE (note 3)	330,000	330,000
RECEIVABLE UNDER SHARE PURCHASE PLAN (note 6(c))	693,010	165,000
INVESTMENTS IN OTHER COMPANIES, at cost (quoted market value 1981 - $463,302; 1980 - $626,218)	651,333	261,102
PROPERTY AND EQUIPMENT, at cost (note 4)	21,295,174	12,456,903
Accumulated depletion and depreciation	1,289,354	745,814
	20,005,820	11,711,089
OTHER ASSETS	37,702	16,879
	$25,793,396	$14,721,631

Liabilities

	October 31, 1981	October 30, 1980
CURRENT LIABILITIES		
Bank indebtedness (note 5)	$ 1,428,451	$ 197,384
Accounts payable and accrued liabilities	2,356,016	1,746,110
Current maturities on long-term debt	11,146	9,100
	3,795,613	1,952,594
LONG-TERM DEBT (note 5)	15,345,085	7,081,434

Shareholders' Equity

	October 31, 1981	October 30, 1980
CAPITAL STOCK (note 6)		
Authorized		
1,000,000 Preferred shares with $10 par value, issuable in series		
15,000,000 Common shares without par value		
Issued		
280,000 9% cumulative redeemable convertible preferred shares, Series A	2,800,000	2,800,000
4,303,284 Common shares (3,354,774 shares in 1980)	10,001,924	6,548,132
	12,801,924	9,348,132
DEFICIT	(6,149,226)	(3,660,529)
	6,652,698	5,687,603
	$25,793,396	$14,721,631

Approved by the Board

J M Brady . Director

Director

Consolidated Statements of Earnings and Deficit

Consolidated Statement of Earnings

	Year Ended	
	October 31, 1981	October 30, 1980
Revenue		
Sale of oil and gas	$ 1,195,142	$ 809,306
Gain on sale of property	7,727	654,224
Interest	3,168	17,673
	1,206,037	1,481,203
Expenses		
Production	193,975	131,277
Non-producing lease rentals	53,415	102,746
Dry hole costs	532,891	611,365
Abandoned properties	–	203,756
Engineering and consulting	199,140	217,870
General and administrative	881,726	837,625
Interest on long-term debt	1,074,258	715,293
Depletion and depreciation	546,580	466,921
	3,472,985	3,286,853
Loss before the undernoted	(2,266,948)	(1,805,650)
Gain on sale of other assets	30,251	249,149
LOSS	(2,236,697)	(1,556,501)
Dividends on preferred shares	(252,000)	(252,000)
LOSS APPLICABLE TO COMMON SHARES	$(2,488,697)	$(1,808,501)
LOSS PER COMMON SHARE	$(.58)	$(.55)

Consolidated Statement of Deficit

	Year Ended	
	October 31, 1981	October 30, 1980
DEFICIT AT BEGINNING OF YEAR	$(3,660,529)	$(1,817,028)
Loss	(2,236,697)	(1,556,501)
Preferred Share issue expenses	–	(35,000)
Dividends on preferred shares	(252,000)	(252,000)
DEFICIT AT THE END OF YEAR	$(6,149,226)	$(3,660,529)

Consolidated Statement of Changes in Financial Position

	Year Ended October 31, 1981	Year Ended October 30, 1980
WORKING CAPITAL DERIVED FROM		
Issue of common shares	$ 3,453,792	$ 188,620
Proceeds on sale of property	7,727	1,854,654
Proceeds on sale of other assets	75,339	845,792
Increase in long-term debt	8,263,651	4,592,987
Other	–	4,548
	11,800,509	7,486,601
WORKING CAPITAL APPLIED TO		
Operations	1,195,204	1,153,774
Additions to property and equipment	7,389,785	2,987,417
Business combination with Seatu Exploration Ltd. net of working capital	1,997,377	–
Reduction of long-term debt	–	781,934
Receivable under share purchase plan	528,010	82,500
Increase in investments in other companies	422,359	220,056
Increase in advances to affiliated company	–	167,353
Dividends on preferred shares	252,000	252,000
Conversion of preferred shares	–	100,000
Preferred share issue expenses	–	35,000
Promissory note receivable	–	330,000
Other	20,823	–
	11,805,558	6,110,034
INCREASE (DECREASE) IN WORKING CAPITAL POSITION	(5,049)	1,376,567
WORKING CAPITAL (DEFICIENCY) AT BEGINNING OF YEAR	284,967	(1,091,600)
WORKING CAPITAL AT END OF YEAR	$ 279,918	$ 284,967

Auditor's Report

To the Shareholders of
Seagull Resources Limited

We have examined the consolidated balance sheet of Seagull Resources Limited as at October 31, 1981 and the consolidated statements of earnings, deficit and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we consider necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at October 31, 1981 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Thorne Riddell

Chartered Accountants

CALGARY, Canada
March 5, 1982

Notes to Consolidated Financial Statements

Year Ended October 31, 1981

1. ACCOUNTING POLICIES

(a) Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its subsidiaries, all of which are wholly-owned.

Acquisitions of subsidiaries are accounted for by the purchase method and, accordingly, only earnings or losses from the date of aquisition are included in the consolidated statement of earnings. The excess of the consideration paid for shares of subsidiary companies over the net book value of the assets acquired has been included in property and equipment in the consolidated balance sheet and is being amortized on the same basis as such assets.

(b) Property and Equipment

(i) Petroleum and Natural Gas Operations

The Company capitalizes the acquisition, exploration and development costs of both producing and non-producing properties by project area of interest together with interest on long-term debt related to costs of project areas where active, major development activities are underway. Costs are capitalized until it is determined whether or not economic reserves exist. If no economic reserves exist within an area of interest, all costs related to that area are charged to earnings. If economic reserves exist, all costs related to that area are amortized using the unit-of-production method based upon estimated quantities of petroleum and natural gas as determined by the Company's engineers.

All the Company's petroleum and natural gas exploration, development and production activities are conducted jointly with others. These consolidated financial statements reflect only the Company's proportionate interest in such activities.

Equipment is depreciated on a straight-line basis over its estimated life at an annual rate of 10 per cent.

(ii) Mineral Properties

Acquisition costs of mineral properties are capitalized by area of interest including exploration and development expenditures related to such properties and interest on long-term debt and overhead expenses related to the costs of mineral properties where active exploration and development activities are underway. Costs are capitalized as long as the properties are considered to be of value. The costs of such properties are written off against earnings if abandoned or will be amortized on a unit-of-production basis on commencement of commercial production.

(c) Foreign Currencies

The accounts of foreign subsidiaries are translated into Canadian dollars on the following basis:

(i) current assets and liabilities at the rate of exchange at balance sheet date;

(ii) all other assets, applicable depreciation and depletion, and non-current liabilities at rates prevailing when the assets were acquired or the liabilities incurred;

(iii) revenue and expenses, except depreciation and depletion, at the average rate in effect during the period.

Gains or losses resulting from such translation practices are charged to earnings.

2. BUSINESS COMBINATION

On October 31, 1980 Seagull Resources Ltd. ("Resources") and Seatu Exploration Ltd. ("Exploration") were amalgamated under provisions of the Companies Act (Alberta) to form Seagull Resources Limited ("Seagull"). The business combination has been accounted for as an acquisition by Resources of all of the 3,097,511 issued and outstanding common shares of Exploration in consideration for $2,201,000 comprised of 619,503 common shares of Seagull at an ascribed value of $3.55 per share.

The net assets of Exploration acquired and values assigned thereto are as follows:

Petroleum and natural gas property and equipment at net book value	$1,231,090
Increase to fair value	766,287
	1,997,377
Working capital	203,623
Ascribed consideration	$2,201,000

3. PROMISSORY NOTE RECEIVABLE

During 1980 the Company sold property and equipment for $480,000 of which $150,000 was paid during 1981. The balance is payable from 50% of the net revenues from the property until September 30, 1985 when any unpaid amount is due.

4. PROPERTY AND EQUIPMENT

	1981			1980
	Cost	Accumulated Depletion and Depreciation	Net	Net
Producing petroleum and natural gas rights including development thereon	$ 5,112,224	$ 877,245	$ 4,234,979	$ 3,615,232
Production equipment	2,044,078	360,135	1,683,943	999,254
	7,156,302	1,237,380	5,918,922	4,614,486
Non-producing petroleum and natural gas rights including development thereon	11,362,469	–	11,362,469	6,230,991
Non-producing mineral properties	2,582,340	–	2,582,340	728,372
Other property and equipment	194,063	51,974	142,089	137,240
	$21,295,174	$1,289,354	$20,005,820	$11,711,089

5. LONG-TERM DEBT

	1981	1980
Production bank loans	$10,320,669	$7,049,356
Convertible Debenture, due March 16, 1986	1,000,000	–
12% Series One Convertible Promissory Notes, due November 2, 1982	4,000,000	–
Promissory note due December 1, 1984	35,562	41,178
	15,356,231	7,090,534
Less maturities included in current liabilities	11,146	9,100
	$15,345,085	$7,081,434

The bank indebtedness included in current liabilities and production bank loans are secured by demand promissory notes and by specific petroleum and natural gas properties, accounts receivable and marketable investments in other companies. Interest is payable at a bank prime rate plus 1.5%.

The demand production bank loans are repayable out of future production proceeds and are not expected to require the use of existing working capital. Accordingly, no portion of such loans have been reclassified to current liabilities.

The Convertible Debenture bears interest at a bank prime rate, is secured by a floating charge on all assets of the Company and is convertible prior to maturity to common shares of the Company at $6.50 per common share.

The 12% Series One Convertible Promissory Notes are convertible prior to maturity to common shares of the Company at $5.00 per share. The notes were issued to a company managed and owned by an officer and director of the Company and his relatives.

The estimated principal payments on long-term debt for the years 1982 to 1986 are as follows: 1982 – $1,611,146; 1983 – $6,411,146; 1984 – $2,411,146; 1985 – $2,402,124; 1986 – $2,520,669.

6. CAPITAL STOCK

(a) Preferred Shares, Series A

The Series A shares are redeemable commencing June 15, 1984 at $10.50 each. The redemption price reduces annually to $10.00 at June 15, 1989 and subsequent. The Series A shares are also convertible to common

shares at $6.50 per common share until June 15, 1982, at $8.50 per common share from June 16, 1982 to June 15, 1985 and $10.50 per common share from June 16, 1985 to June 15, 1989. If prior to June 15, 1984 the weighted average price at which the common shares are traded for 20 trading days exceeds 150% of the conversion price, the Series A shares may be redeemed by the Company.

(b) Common shares

Changes in the issued capital stock for the year ended October 31, 1981 are as follows:

	Number of Shares	Carrying Value
Balance at October 30,1980	3,354,774	$ 6,548,132
Issued for cash pursuant to share option agreements	117,000	324,990
Issued in exchange for promissory notes pursuant to share option agreements (see note 6 (c))	137,000	552,760
Issued in exchange for interest in property	65,000	325,000
Issued to directors on amalgamation (note 2)	7	42
Issued in business combination with Seatu Exploration Ltd. (note 2)	619,503	2,201,000
Issued in exchange for consulting serivices rendered	10,000	50,000
	948,510	3,453,792
Balance at October 31, 1981	4,303,284	$10,001,924

At October 31, 1981 common shares were reserved for issuance pursuant to:	Number of Shares
Stock options granted to officers, director and employees exercisable at prices ranging from $2.46 to $6.50 and expiring from time to time until September 30, 1984	397,000
Conversion privileges of Preferred Shares, Series A	430,640
Conversion privileges of Series One Convertible Promissory Notes	800,000
Conversion privilges of Convertible Debenture	153,846
Warrants exercisable at $5.00 each held by Series One Convertible Promissory noteholder	200,000
	1,981,486

(c) Receivable Under Share Purchase Plan

At October 31, 1981, under terms of a share purchase plan 222,000 shares have been issued to officers and directors of the Company. The aggregate purchase price of $693,010 is payable prior to January 17, 1983 and is secured by non-interest bearing promissory notes.

Subsequent to October 31, 1981 and with the approval of the Alberta Securities Commission, 137,000 shares were returned to the Company for cancellation in full satisfaction of promissory notes aggregating $552,760.

7. COMMITMENTS

The aggregate rentals payable to the expiry date of the long-term operating lease for office space amount to $164,676. Future annual minimum lease payments for the lease period are $54,892.

8. SEGMENTED INFORMATION

The Company has two areas of activity:

(a) the exploration for and development and sale of production from petroleum and natural gas properties; and

(b) The exploration and development of mineral properties.

Since the mineral properties are still in the exploration phase, the industry segment information has been given only in identifiable assets under geographic segments. Information about the Company's operations by geographic segment is as follows:

YEAR ENDED OCTOBER 31, 1981	Canada	United States	Total
Oil and gas sales	$ 741,128	$ 454,014	$ 1,195,142
Operating loss	$ (53,222)	$ (268,637)	(321,859)
Gain on sale of resource property	$ –	$ 7,727	7,727
Gain on sale of other assets	$ 30,251	$ –	30,251
Interest			3,168
General and adminstrative expenses			(881,726)
Interest on long-term debt			(1,074,258)
Loss			$(2,236,697)
Identifiable assets			
Petroleum and natural gas operations	$ 9,523,394	$12,343,319	$21,866,713
Mineral operations	2,582,340	–	2,582,340
	$12,105,734	$12,343,319	24,449,053
Receivable under share purchase plan			693,010
Investment in other companies			651,333
Total Assets			$25,793,396

YEAR ENDED OCTOBER 30,1980	Canada	United States	Total
Oil and gas sales	$ 648,177	$ 122,229	$ 770,406
Operating loss	$ (324,734)	$ (638,795)	(963,529)
Gain on sale of resource property	$ 513,699	$ 140,525	654,224
Gain on sale of other assets	$ 249,149	$ –	249,149
Interest			17,673
General and administrative expenses			(872,625)
Interest on long-term debt			(715,293)
Loss			$ (1,630,401)
Identifiable assets			
Petroleum and natural gas operations	$ 8,390,826	$ 4,882,431	$13,273,257
Mineral operations	728,372	–	728,372
	$ 9,119,198	$ 4,882,431	14,001,629
Receivable under share purchase plan			165,000
Investment in other companies			261,102
Other corporate assets			293,900
Total Assets			$14,721,631

9. SUBSEQUENT EVENT

Subsequent to October 31, 1981, the Company issued 200,000 common shares for $5.00 cash each. Funds received from the issuance of the shares must be expended on specific mineral properties of the Company.

10.STATUTORY INFORMATION

During 1981, the consolidated group of companies paid no renumeration to the Company's six directors in their capacity as directors and paid $226,465 to five officers of the Company, four of whom were also directors.

Company Description

Active in petroleum exploration in North America and Australia, Seagull Resources Limited produces both oil and natural gas in Canada and the United States. Moderately diversified, the company is developing coal reserves in Southern Alberta and is active in base metals exploration in Ontario.

Listed on the Alberta Stock Exchange and on NASDAQ in the United States, Seagull is 91 percent Canadian owned.

Directors

James M. Brady	Vancouver, B.C.
Hugh C. Findahl	Calgary, Alberta
Eric Nissen	Calgary, Alberta
John A. Downing	Calgary, Alberta
Louis R. Fyffe	Calgary, Alberta
Ronald J. Farano	Toronto, Ontario
Arthur F. Coady	Calgary, Alberta

Officers

Hugh C. Findahl	President and Chief Executive Officer
Russel G. Jensen	Vice-President
Arthur F. Cody	Secretary
Louis R. Fyffe	Manager, Exploration, Assistant Secretary
Eric Nissen	Assistant Secretary

Other Key Personnel

Roger H. Guimond	Manager, Coal
Kelly Cox	Corporate Affairs Counsel
Roy Nelson	Engineering Coordinator
Roxanne Becker	Houston Office Manager

Offices

Seagull Resources Limited
Suite 301, 615 - 3 Avenue S.W.
Calgary, Alberta
T2P 0G6

Seagull Resources, Inc.
Judge Bldg., 5718 Fairdale Lane
Suite C
Houston, Texas 77057

Picton Pipeline Company, Inc.
Judge Bldg., 5718 Fairdale Lane
Suite C
Houston, Texas 77057

Legal Counsel

Burstall & Company
1200, 540 - 5th Avenue S.W.
Calgary, Alberta
T2P 0M2

Weitinger, Steelhammer & Tucker
1616 Summit Tower
11 Greenway Plaza
Houston, Texas 77046

Robert McMurrey,
Attorney at Law
4801 Woodway, Suite 160 W.
Houston, Texas

E. David Philley,
Attorney at Law
710 North Post Oak Road
Suite 107
Houston, Texas 77024

Vinson & Elkins,
Attorneys at Law
First City National Bank Building
Houston, Texas 77002

Jones, Francy, Doris, Sutton and Edwards, Inc.
Attorneys at Law
Suite 400, 114 East 8th Street
Tulsa, Oklahoma 74119

Dawson Waldron
Solicitors
60 Martin Place
Sydney, NSW, 2000

Beresford, Love & Company
Attorneys at Law
P.O. Box 35
Port Moresby, Papua New Guinea

Registar and Transfer Agents

The Canada Trust Company
505 - 3 Street S.W.
Calgary, Alberta

Auditors

Thorne Riddell

Stock Exchange Listing

The Alberta Stock Exchange
Calgary, Alberta-Symbol SGU
NASDAQ, U.S.A.
-Symbol SGULF

Banks

Royal Bank of Canada,
Calgary, Alberta
Texas Commerce Bank,
Houston, Texas

Annual Meeting

The Annual Meeting of shareholders of Seagull Resources Limited will be held at 3:00 p.m. April 30, 1982 in the Banff Room, The Westin Hotel, 4th Avenue and 3rd Street S.W., Calgary, Alberta

Seagull Resources Limited Annual Report 1981

Printed in Canada